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## BERLIN'S TAX PROBLEM.

**P**ROBLEMS of local finance ordinarily attract little attention outside the community immediately affected. Such matters may be important, but they are certain to be hard and dry. In spite of these inevitable difficulties, the recent agitation of tax questions in Berlin deserves wide and careful study. Interests of no small magnitude are involved, of course, but for outsiders the reforms under contemplation in the German metropolis are chiefly significant because the municipal problem they attack is a pressing one in large cities the world over. Briefly, it may be formulated as follows: Where are we to discover sources of revenue sufficient to meet the expanding needs of modern cities, particularly for the purpose of carrying on social reform policies—for more and better schools and hospitals, for the improvement of housing and sanitary conditions and for the enlightened administration of charity?

Few cities have met this issue so squarely as Berlin. Few cities, it might be added, are so fortunate in the possession of expert advisers on such questions. Professor Adolf Wagner, whose prominence as an economist and student of public finance is as widely recognized on this side of the Atlantic as in Europe, has made a notable contribution to the literature of municipal finance in the form of a pamphlet on the present issue in Berlin.<sup>1</sup> In this he was ably seconded by Dr. Preuss of the University of Berlin, whose exhaustive knowledge of Prussian administrative law has been put at the service of the city not only in public discussions but also on the floor of the municipal council of which he has been a member for eleven years. Mayor Kirschner of Berlin has followed the development of the

<sup>1</sup> *Kommunale Steuerfragen*, Referate von Professor Dr. Adolf Wagner und Privatdozent Dr. Preuss, erstattet der Ortsgruppe Berlin der Gesellschaft für Soziale Reform. Jean, Gustav Fischer, 1904. 63 pp. This pamphlet will be referred to in succeeding notes under the abbreviation: Ref.

new tax measures most assiduously from their inception, and in this he has set the example for all the leaders of the various groups in the city council. Of the latter, probably the best-known outside of Germany is Paul Singer, who presented the views of the Social Democratic party on the pending questions trenchantly, but by no means always destructively.

The rapid growth of American cities has frequently been employed as an excuse for municipal shortcomings. Problems of vast magnitude have arisen so rapidly, it is said, that in the nature of the case solutions could be only approximate. Admitting frankly the true difficulties of our situation, a brief consideration of what Berlin has accomplished since 1870, under similar or even harder conditions, is like a new revelation on the subject. The population of the German capital at the end of the year 1870 was 774,498; at the end of 1903 it was 1,955,910. It is hardly necessary to add, so frequently has the subject been discussed elsewhere,<sup>1</sup> that both the absolute growth and the rate of growth indicated by these figures are but little if at all short of similar figures for many of our larger American cities. A most essential point of difference, however, is to be found in the fact that while our cities had practically a free field for municipal development less than a generation ago, Berlin at the same time had much to tear down before it could build anew. The older part of the city was a maze of tortuous alleys; cobblestones were the only paving where there was such a thing as paving; antiquated and rickety structures were common; and the subsoil of the city and the River Spree were being poisoned by a vicious system of open sewers; while interference in local affairs by royal authorities was carried to an extent little short of tyrannous, however benevolent may have been its purposes.

In all these particulars Berlin has progressed from eighteenth to twentieth century conditions within the period since the Franco-German war. From the financial point of view the great landmarks of this progress are: (1) the abolition of fees

<sup>1</sup> Cf. Albert Shaw, *Municipal Government in Continental Europe*, pp. 292 *et seq.*; J. A. Fairlie, *Municipal Administration*, pp. 118 *et seq.*

for common school education in 1870 and the subsequent rapid development of the city school system on this basis; (2) the municipalization of the water-works in 1873, supplemented by the development of new sources of supply and general improvement of the system in 1893; (3) the beginning of the new sewage-disposal plant with the utilization of the sewage upon farms owned and largely cultivated by the city in 1873; (4) the transfer of the street-cleaning service from royal to municipal administration in 1875; (5) the opening of the municipal cattle-yards and slaughter-house in 1881; and (6) the completion of the central market hall in 1886, since followed by the erection of thirteen other local market buildings.<sup>1</sup>

Such a record of municipal activity one would expect to find writ pretty large in the figures showing Berlin's municipal debt. At the end of the fiscal year 1903 (March 31), it amounted to 318,245,734 marks, representing 165.70 marks per capita. Remembering that in addition to the municipal acquisitions mentioned in the preceding paragraph Berlin also owns her gas plant,<sup>2</sup> this figure will seem very moderate, especially when compared with certain large American cities which owe as much proportionally and have notoriously less to show for it. The burden upon the German capital is even lighter than the absolute figures would indicate, for no less than three-fourths of its debt is represented by investments that to a greater or less degree contribute financially to the city treasury. How far the city government is from insolvency may be gathered from the fact that the aggregate value of its public property is estimated at 655,422,695 marks, or 337,176,916 marks more than the total debt of the city. Thus each inhabitant of Berlin may be said to have an equity in municipal property to the value of 175.55 marks free from all encumbrance.

Before taking up the tax income proper of Berlin the earnings of these great property-holdings demand at least a brief

<sup>1</sup> For many valuable details regarding the events summarized above see Dr. Leo S. Rowe, *Die Gemeindefinanzen von Berlin und Paris*. Jena, Gustav Fischer, 1893, especially pp. 85-101.

<sup>2</sup> Berlin began the operation of municipal gas works in 1847, prior to the series of municipal undertakings noted on above.

summary. Considering simply the excess of receipts over operating expenses, the city's quasi-economic income, *i. e.*, from all its plants, property and franchises, amounts to nearly one-half of the total net yield from its taxes. If interest and sinking-fund charges be considered, however, the relative importance of the city's quasi-economic sources of income is considerably lessened. Avoiding statistical details, it may be said at once that the municipal market halls, cattle market and slaughter house come out just about even when interest and sinking-fund charges are accounted for. Municipal institutions of this kind may not be operated with a view to profit according to Prussian law. It was feared that high fees might be charged for the facilities afforded by such plants, and that the effect would be similar to that of a tax on the consumption of articles of common necessity. In the final analysis, therefore, these branches of the city administration are neutral so far as the central treasury is concerned. The sewage-disposal plant is not a money-maker, although doubtless it is a money-saver as compared with any other means of performing the same service for Berlin.<sup>1</sup> For the fiscal year 1903-04, on the other hand, the gas and water works showed net profits of 4,873,025 and 2,356,222 marks respectively after the deduction of all operating expenses, interest and sinking-fund charges.<sup>2</sup> A total of nearly seven and a quarter million marks, therefore, was an absolutely net contribution to the city treasury from these two enterprises.

Comparing this result with the net yield from all taxes of nearly seventy millions of marks a year, it becomes apparent that the main financial reliance of Berlin is still placed on taxation, in spite of the extent to which the city has carried the policy

<sup>1</sup> For a brief explanation of the finances of the sewage farms see article by the writer in the *POLITICAL SCIENCE QUARTERLY*, vol. xx, pp. 310 *et seq.*

<sup>2</sup> One of the minor reforms approved by the council in the course of the present agitation will, if finally adopted, increase the apparent profits of the gas-works. At the present time the depreciation rates charged against the latter include, besides funds for repairs and renewals, an amount to be used for extensions. It is now proposed to discontinue the latter item, which will, of course, increase the figures showing future profits of the gas-works. On the other hand, however, the city will have to make larger issues of bonds when extensions have to be made.

of municipal ownership. Without taking up the general questions involved in this policy, there can be no doubt that sentiment favorable to its extension is growing in the German capital. In the present search for new sources of income for the city nearly all the speakers and writers indicated street railways and electric lighting as fields that municipal enterprise must enter sooner or later. Professor Wagner expressed himself strongly to this effect, and criticised very severely existing provisions for compensation in the franchises of public service corporations. According to the agreements now in force between the city and the street railway companies, the latter are not obliged to increase the rate of their payments to the city until their dividends exceed 12 per cent. This arrangement Professor Wagner considered entirely too favorable to the companies, and he suggested instead the model of the Imperial Bank, in the profits of which the empire has an increasing share beginning at the low dividend rate of  $3\frac{1}{2}$  per cent.

Unfortunately for the city, however, neither the policy of municipalization nor an improved form of municipal control offers any means of increasing the income of the municipal treasury at present. However disadvantageous to the city they may be, the street railway agreements now in force run until 1919, while the Prussian authorities by a rather shady process recently continued the life of the largest street railway company in Berlin (*Grosse Strassenbahngesellschaft*) for thirty years longer.<sup>1</sup> As for the electric light contracts, Mayor Kirschner's opinion, that they are financially more advantageous to the city than direct operation would be at present, met with no opposition in the city council.<sup>2</sup>

One rather striking feature about Berlin's search for new sources of income in this direction is the fact that officially at least no one proposed an increase in the present gas or water rates. The stock argument against municipal ownership,

<sup>1</sup> Preuss, Ref., p. 39.

<sup>2</sup> Amtlicher stenographischer Bericht üb. d. ausserord. Sitzung d. Stadtverordneten-Vers., 28 Feb. 1905, p. 116. Important materials on the electric lighting agreements may be found in Schilling's *Journal für Gasbeleuchtung*, Jhrg. 26 (1883), p. 854; Jhrg. 30 (1887), p. 511; Jhrg. 41 (1898), pp. 360, 773.

namely that "democratic finance" tends to reduce prices below the point of profits, would thus seem to have considerable validity even in a country the constitution of which is far from democratic. Professor Wagner criticized Berlin's policy on this score as follows:

I believe \* \* \* it would not be such a bad thing if one or more of the city's plants, even the lighting plant for that matter, were managed with a view to larger profits. Whether the [recent] reduction in the price of gas was really so necessary seems to me at least rather doubtful. It must be admitted frankly that in the receipts from the use of gas we had before a sort of indirect tax on consumption which after all was thoroughly justifiable.<sup>1</sup>

From whatever side Berlin's municipal industries were considered, therefore, no immediate increase in their contributions to the city's revenues could be anticipated. Consequently almost the whole interest of the present discussion centred in new taxes. Before taking up the various reform proposals made, a brief statement of the principles underlying the existing system may be helpful. The ideal of German taxation as a whole has been expressed as follows: "*Zölle und indirekte Abgaben dem Reiche, Personalsteuern dem Staate, Realsteuern den Gemeinden,*" or in translation, "Customs and indirect duties for the empire, personal taxes for the state, real taxes for the communes," *i. e.*, municipalities and local governments generally. So far as cities are concerned this ideal is embodied in the famous municipal tax law of 1893,<sup>2</sup> which lies at the basis of the finances not only of Berlin but of all Prussian cities. In drafting this law and in his other epoch-making enactments of the same period, Finance Minister von Miquel took the position

<sup>1</sup> Ref. pp. 12, 13. The reduction in the price of gas referred to by Professor Wagner was made in 1901, when a uniform price of 13 pf. per cubic meter with a rebate of 5 per cent for prompt payment (92 cents per 1000 cu. ft., or with rebate, 87½ cents), was substituted for the former rates of 16 and 10 pf. per cubic meter for lighting and fuel gas respectively. As 58 per cent of the gas used prior to the change was paid for at the higher rate, the reduction was a very material one and resulted in cutting the net profits of the works in half.

<sup>2</sup> *Kommunalabgabengesetz v. 14 Juli, 1893, Gesetzsaml.* p. 152. This law will be referred to in later notes under the abbreviation, K. A. G.

that from a fiscal point of view cities are to be regarded chiefly as economic bodies (*vorwiegend wirtschaftliche Verbände*), or, to express it in an over-worn American phrase, "municipal government is business, not politics." In drawing his conclusions from this premise, however, the great Prussian legislator deviated sharply from current American reasoning. For while we sometimes hear the argument that, since municipal government is business, not politics, therefore municipal government should be run by business men according to their methods and in their interest, von Miquel's conclusion was that, as business men—and particularly owners of land and buildings and managers of city enterprises—are chief beneficiaries of city government, they should therefore be the chief contributors to its support.

Accordingly the Prussian government relinquished the proceeds of its taxes on land, buildings and business in favor of the cities.<sup>1</sup> To cover the enormous losses which this would otherwise have occasioned in the budget of the state, the famous graduated income tax law of 1893 was passed, together with the supplementary tax (*Ergänzungssteuer*) designed to secure an additional contribution from income flowing from property. Other features of the tax legislation of 1893, so far as it affects Berlin, will be taken up in connection with special topics later. Meanwhile let it be noted that it is this "segregation of source as between local and state revenues,"<sup>2</sup> whereby the cities were put in exclusive enjoyment of taxes on land and business in their midst, which was fundamental in the municipal tax legislation of 1893 and which was considered by German and foreign critics alike to be its greatest merit.

The following table shows the yield of the various municipal taxes of Berlin arranged in the order of their magnitude for the fiscal years 1900-01, 1901-02, 1902-03, and 1903-04.

<sup>1</sup> Gesetz wegen Aufhebung direkter Staatssteuern v. 14 Juli, 1893, *Gesetzsamml.* p. 119.

<sup>2</sup> E. R. A. Seligman, *Essays in Taxation*, p. 339.



NET YIELD, BERLIN MUNICIPAL TAXES, 1900-01—1903-04.<sup>1</sup>

TAXES.	1900-01.	1901-02.	1902-03.	1903-04.
	Marks	Marks	Marks	Marks
Municipal Income Tax.....	29,637,948	30,975,746	29,232,710	28,316,365
Municipal Land Tax.....	18,567,034	19,375,094	20,373,338	21,214,710
Business Tax.....	8,984,107	8,728,258	7,606,016	8,055,818
Sewage Tax.....	5,227,460	5,488,839	5,632,930	6,178,794
Tax on Real Estate Transfers .	1,745,942	1,689,305	2,225,844	2,831,783
Malt Tax .....	757,834	747,182	698,771	726,872
Department Store Tax .....	.....	558,582	452,179	704,464
Dog Tax.....	576,333	593,581	607,318	624,208
Retail Liquor Dealers' Tax ...	287,349	313,841	303,613	278,461
Poor Fees.....	270,703	5,013	4,550	5,117
Pedlers' Tax.....	850	525	550	950
Total.....	66,055,560	68,476,966	67,137,819	68,937,542

At the head of the list and making up 41 per cent of the total tax collections for 1903-04 is the municipal income tax. Since, as has just been pointed out, the so-called *real* taxes on land, buildings and business were intended to be the main resource of the cities after 1893, the prominence of the above item in Berlin's balance sheet is very striking and significant. It reveals a defect in the municipal tax law which is in conflict with the fundamental purpose of the law itself. Avoiding a technical statement of the case, the situation, so far as it concerns the present discussion, is briefly as follows. Berlin and other cities are allowed to assess a tax against incomes, as a rule, only in the form of a percentage added to the state income tax. If municipal needs require that besides the *real* taxes a local income tax must thus be employed, the city is obliged to levy of the *real* taxes not less than the percentage levied of the local addition to the state income tax, and not more than half as much again.<sup>2</sup> This *Kontingentierung* of municipal taxes according to norms established by the state is not a hard-and-fast rule if one considers only the letter of the law. Nevertheless it has proved so as far as Berlin is concerned, for if the city should attempt to exceed the restrictions stated above, its action would be subject

<sup>1</sup> Statist. Jahrbuch d. Stadt Berlin, 1903, p. 464.

<sup>2</sup> K. A. G., § 54.

to special review by the royal supervisory administrative authorities, leading from one instance to another with plentiful red tape along the route, with the possibility that in the end a disallowance might overturn the proposed increase and derange the whole financial system of the city. As chronic friction exists between the liberal municipal council of Berlin and the conservative officers of the royal administration, it is not hard to understand why the city does not put its head into this lion's mouth. The practical consequences of the present state of affairs are, first, that the city is not in a position to develop the *real* taxes which according to the intent of the municipal tax law of 1893 were to constitute its main support, and, second, that it is obliged to retain and depend upon its additions to the state income tax as far as it can do so without royal interference.

This amounts to saying that the much heralded municipal tax law of 1893 has failed to a large extent, and that the failure is due to defects inherent in the law itself. Not only in Berlin is this difficulty felt. A recent national convention of city officials (*Städtetag*) unanimously declared in favor of a change in the method of *Kontingentierung* in such a manner that municipal *real* taxes might be more fully developed. A similar resolution was adopted by the Berlin council, although not a few of its members declared that requests of this character were nothing more than pious hopes. Final action in the matter rests of course with the Prussian legislature. If the point should become a live issue, as sooner or later it must, a powerful opposition must be expected from city land-owners who fear that, once the limitations imposed by the state are raised, the tax screw will come down upon them with crushing pressure. Since one-half of the members of Prussian city councils must by law be composed of house-owners,<sup>1</sup> favorable action by the state will by no means be decisive, but will simply transfer the fight from the Landtag to city councils all over the country.

<sup>1</sup> Cf. article on "The Three-Class Election System in Prussian Cities," *Municipal Affairs*, vol. iii (1899), p. 408.

Although there is little hope for the immediate reform of the *Kontingentierung* clause of the municipal tax law, a number of minor changes in the municipal income tax were suggested. Reference to the table on page 672 will show that the yield of the latter has fallen off in Berlin 2,659,381 marks, or over 8 per cent, since 1901-02. During the same years the yield of the state income tax for the whole of Prussia considerably increased. The explanation is simple. Rich citizens are transferring their residences from the city to the suburbs in constantly increasing numbers. In the main this does not mean tax-dodging, since most of the suburbs levy a local addition to the state income tax as high as or even higher than that of Berlin. There is, however, one notorious exception—Grunewald—where the rate is so low, as Mayor Kirschner pointed out, that wealthy residents save enough on their local income tax to purchase a new lot for a villa each year. It is apparent from this example that even if the Prussian state left its citizens quite free in the matter of assessing income taxes they would find this resource very unsatisfactory. With a little of the New Jersey spirit, one municipality might reduce or abolish its rates and thus attract the millionaires for leagues around, to the serious detriment of its neighbors' finances. Particularly where non-residents carry on business in a city and live in the suburbs, the existing arrangement seems unfair. In such cases the suburbs profit from incomes not earned within their limits. Accordingly the Berlin council unanimously incorporated in its reform plans a request that the Prussian legislature take under advisement a change in the law whereby a city may levy at least upon that part of the income of a non-resident which is derived from a business carried on within its limits. No fundamental solution of this problem will be possible, however, until the royal authorities finally give way to the demand for the creation of a "greater Berlin."

Two other less important changes in the municipal income tax law were suggested. One of these was designed to compel personal declarations from the recipients of smaller incomes (1500 to 3000 marks annually), of the same sort as may now be required as a matter of course from recipients of larger in-

comes.<sup>1</sup> It is hoped that this will stop some of the leakage from the lower levels of the income tax. The other minor reform was with reference to the assessment of the incomes of employees of the state. According to § 41 of the municipal tax law, such persons now pay only one-half of the tax that the city collects from private individuals receiving the same salary. As these royal officials enjoy all the manifold advantages of city life equally with other citizens, it was felt by the Berlin council that they ought to be called upon to contribute equally to the support of the city government. Final action on these points, as also with regard to the other proposed reforms of the income tax law, lies with the Prussian Landtag.

Next to the income tax the municipal land tax is Berlin's largest revenue producer. In 1903-04 it yielded 21,214,710 marks, or 30.7 per cent of the city's total net income from taxes. Since the land tax is now developed as fully as the *Kontingentierung* principle permits, there is no immediate prospect of making it more productive. Nevertheless it received far more attention in the discussions of the council than all the other reforms put together. The main point at issue was the method of assessment. At present the land tax in Berlin is based upon rentals, the rate being 5.8 per cent of the actual rental minus 8 per cent allowed for costs. This system suffers from one great and universally conceded defect, namely, that under it unimproved land either escapes altogether or else pays only a microscopic tax. In consequence, real estate speculation is encouraged, for speculators are under no pressure to develop their property. To correct this it was proposed that a tax based upon the *gemeine Wert*, or ordinary market value of real property, be substituted for the present assessment of rentals. Although the purpose sought is in line with single-tax theories, the method is directly the opposite of that which single-taxers would employ, in that it seeks to reach the unearned increment not through rent but through the capitalized value of land. Nevertheless the plan proposed would, if

§§ 24, 25, Einkommensteuergesetz vom 24 Juni, 1891, Gesetzsaml. p. 185; cf. also J. A. Hill, "The Prussian Income Tax," *Quarterly Journal of Economics*, vol. vi, p. 216.

adopted, undoubtedly enable Berlin to reach part of the unearned increment in its worst form, namely, that upon unimproved property. To go further on the basis of the Prussian municipal land tax is impossible so long as the *Kontingentierung* restrictions remain. As will be seen later, another means, which avoids this difficulty, has been proposed in order to reach the unearned increment on city real estate in general.<sup>1</sup>

There are in Berlin at present only about six hundred unimproved lots as against nearly twenty-six thousand lots built upon. If the only result of the change from the assessment of rentals to the assessment of market values were to effect a readjustment of the present tax burden as between improved and unimproved property it is evident that the increase upon the latter would be too small to contribute much to the lightening of the taxes upon the former. The advocates of the market-value tax pointed out, however, that in addition to the wholly unimproved real estate in the city there were many lots only partly improved—villas with gardens, lots occupied by temporary structures, *etc.* Under the rental assessment such holdings are taxed but lightly. A market-value tax, on the other hand, would take into consideration future as well as present earning capacity of such properties, with the result that they would be obliged to pay more and thus contribute materially to the lessening of the burden upon fully-improved property, particularly tenement houses or small dwellings occupying a large part of the lots upon which they are built. Extended statistical tables were presented in support of the above contention, based upon results obtained in twenty-six out of the one hundred and twenty-four Prussian communities in which the assessment is made according to market value. Nearly all the suburbs of Berlin have the new system, and it was argued that the change would bring the metropolis into closer harmony with its neighbors and thus do something toward the realization of the dream of a "Greater Berlin." Finally, the market-value assessment has for some years been favored by the Prussian authorities. Under the municipal tax law of 1893, cities are allowed considerable latitude in the

<sup>1</sup> The proposed increment tax, *infra*, pp. 684-685.

manner of assessing the land tax, but in 1899 the minister of the interior, von Rheinbaben, and the finance minister, von Miquel, came out strongly in favor of the market-value plan.<sup>1</sup> By complying with the wishes of the royal authorities in the matter, it was thought that the city would put itself in a better position for obtaining the desired changes with regard to the *Kontingentierung* clauses.

To these arguments in favor of a market-value assessment a number of objections were made. Real estate owners—even those whose property was fully improved—feared that the new method might result in increased burdens. On the floor of the council, however, there was unanimous acquiescence in the proposition that unimproved lots must be made to pay more taxes. The only opposition to the capital-value assessment came from those who thought that it went too far, and who therefore proposed that it be applied only to unimproved lots, leaving the old system in force with regard to improved real estate.

The advocates of this double assessment plan brought a great number of objections against the uniform market-price valuation. On the administrative side they foresaw many technical difficulties. The rental assessment, which they hoped to retain for improved property, was easily made; it involved no complicated processes, demanded no expert talent, while the facts it sought to ascertain could be determined with almost absolute accuracy. Not so with regard to the market-value assessment. To begin with no one had or, for that matter, could have a perfectly definite and universally satisfactory method of ascertaining market or capital value. The concept itself is not clear. Ordinarily market or capital value is taken to mean the selling price of a piece of property under normal circumstances. Such a valuation is supposed to reflect not only present but also future earning capacity. Here are a number of extremely vague elements. Of course various rules of thumb may be employed to reach a practical solution,<sup>2</sup> but an attempt to as-

<sup>1</sup> In the Runderlass von 2 Okt., 1899, F. M., ii, 9,492; M. d. I., I. B. 5,514.

<sup>2</sup> Several methods of ascertaining market value were discussed in the council. Cf. Amtlicher stenographischer Bericht ü. d. ausserord. Sitzung d. Stadtverordneten-Versammlung a. 28 Feb. 1905, p. 121; *ibid.* 13 Apr. 1905, 221.

sess all of Berlin's real estate on this basis would have two certain results: first, it would enormously increase the cost of assessment and administration while at the same time, under the *Kontingentierung* clause, no increase in the gross yield of the tax could be obtained; second, it would cause great dissatisfaction among property holders and lead to the bringing of many vexatious suits against the city to secure a reduction of the assessment.

Before proceeding with other objections urged against the capital-value system, it will be well to state the rejoinder made by its advocates to the foregoing. What if it should cost slightly more, they asked, to collect the same amount of tax? Granted that we secure greater justice in the distribution of the burden upon real estate, the greater expense of collection is also justified. But the cost and difficulty of the new method have been exaggerated. We shall be able to find numbers of citizens willing to give their time gratuitously to the service of the city in making assessments as they do now in the conduct of charities, schools and elections. Moreover their work will be made much lighter by the fact that the state already assesses real estate, with the exception of that held by corporations, for the purposes of the supplementary tax (*Ergänzungssteuer*). For a very large part of the properties to be valued there thus exists a guide in the estimates of the state officials which should prove very useful to the new tax bureau and its helpers, salaried and otherwise. As for suits brought by property holders owing to dissatisfaction with their assessments, the experience of Breslau, Cologne, Charlottenburg and other cities where the change has already been made, shows that such suits were not very numerous even under the first shock of the new system, and decreased in number to an almost vanishing minimum shortly thereafter. One very interesting consequence of the market-value plan from an American point of view is the fact brought out in a statement from Breslau that particular care is exercised there to prevent over-assessment. Nothing in the Berlin debates indicated an intention to fix the capital value at any percentage below the actual worth, as is so often done in the administration of our own general property tax. That something similar

occasionally happens in Prussian cities which have gone over to the new system would seem a fair inference from Breslau's statement.<sup>1</sup> Although it merely proves the rule, one exception to the foregoing may be found in a model ordinance drawn up by the Prussian government for the advice of such cities as desired to change from rental to capital-value assessments. In this document it was provided that three-fourths (or only one-half) of the value might be assessed in the case of buildings erected by semi-philanthropic corporations or associations for the improvement of workingmen's dwellings, provided such corporations or associations limited their dividends to four per cent and in the event of their dissolution returned only the face value of the stock to their shareholders, devoting the remainder of their property to the welfare of the community. A similar exception was also suggested in favor of small dwellings owned and occupied by workingmen.<sup>2</sup>

To return to the arguments of the opponents of the capital-value plan, one point was made which perhaps has a certain general validity in connection with schemes of taxation designed to hurry up the improvement of vacant city lots. On the periphery of Berlin some land is still owned and cultivated by gardeners and small farmers. Under the present tax on rentals the small net returns from this kind of cultivation are made the basis of their assessment. A market-value tax, on the other hand, would fall upon them with crushing force, and as they are not in possession of sufficient capital to enable them to build upon their holdings they would be forced to sell, in all probability to large land and improvement companies. This argument, however, seemed to make little impression upon the Berlin council. Probably the number of such "cabbage farmers" is extremely small in comparison with the number of land speculators who would be affected chiefly by the change.

In addition to the foregoing, a number of minor objections

<sup>1</sup> Amtlicher stenographischer Bericht f. d. Sitzung d. Stadtverordneten-Versammlung a. 13 Apr. 1905, p. 220.

<sup>2</sup> The text of this proposed ordinance was reprinted in the Vorlage f. d. Stadtverordneten-Versammlung zu Berlin, no. 13, (168), p. 195, 16 Jan. 1905.



were made to the market-value assessment plan. Under the present arrangement, owners of property who have not been able to rent it all the time have their assessment reduced in proportion to the loss incurred. It is difficult to see how an allowance of this kind can be made under the new scheme, although some such promise was held out. As the total yield of the tax is fixed in advance, however, the result of the present arrangement is that the burden of the less successful landlords is lightened at the cost of the more successful ones. Only about one per cent of the rentable property of Berlin is vacant at any one time, so that it would seem the better rule to disregard any except chronic failure to rent in the assessment of the land-tax. The purveying of houses is, after all, a business like other businesses, losses incurred in which should be borne by the enterpriser concerned. Also debts are deducted under the present system, while this would not be done under the capital-value assessment. Along the same line it might be noted that houses occupied by owners are said to be less adequately assessed now than property of equal value occupied by tenants, the reason being, of course, that in the former case the rent is yielded in the form of subjective utilities, while in the latter a definite and easily ascertainable contract rent is paid. Opinions will differ as to the advisability of a condition of affairs which favors property occupied by owners. The friends of the new system evidently believe that it will lead to a more correct assessment of such property, but experience alone can settle this matter. Of considerable interest is the point brought out in the discussions of the council that the records of actual rentals now kept in the assessor's office are always consulted to determine the credit of property owners. Largely upon the basis of the information thus secured mortgages are negotiated. Some of the opponents of the new plan feared that its adoption would throw the real estate loan market into confusion. A record of rentals, however, will doubtless be kept in the future as in the past for two reasons: first, for the purposes of the sewerage tax which will continue to be assessed on this basis, and, second, in order that the information thus secured may be used in determining the capital value to be assessed under the new plan.

It has been noted that the opposition to the assessment of real estate according to market value did not reject this principle *in toto*, but suggested instead a double system, whereby unimproved real estate should be taxed on this basis and improved real estate should be dealt with on the present basis of rentals. Such a double system is in actual employment in Frankfurt on the Main and in Cassel. In cities which, unlike Berlin, still have considerable unimproved areas such a compromise might commend itself. As one of the chief advantages expected from the market-value assessment is the pressure it will bring to bear on partly (as well as on wholly) unimproved property, the double system would hardly meet the needs of the Berlin situation. Moreover, there is some doubt as to the latter system's legality. According to § 27, clause 1, of the municipal tax law of 1893, "the taxes on landed property must be apportioned according to the same norms and principles." The weight of Prussian juristic authority inclines to the opinion that this is meant to bar out personal discrimination, and does not, therefore, conflict with such a double system as was proposed for Berlin. Nevertheless, as the point has never been passed upon by the highest administrative court, the danger of a decision which would overthrow the double system and possibly involve the city's finances in almost hopeless confusion, still remains a factor to be reckoned with. In the council's final action on the question the double system was defeated by a vote of 54 to 44, and afterwards a resolution in favor of the capital-value assessment for all real estate was carried by 71 to 26. A question was tacked on to the successful resolution asking the Prussian government whether a higher rate might not be assessed against unimproved than against improved real estate.

With the favor of the royal authorities already assured, this decision by the Berlin council in favor of the market-value plan of assessment will probably be put into effect in the near future. Owing to the *Kontingentierung* clause, it will not, of course, result in any direct financial benefit to the city treasury. The change is however, decidedly significant of the strong determination now prevailing in the German capital to put real estate, and particularly the unearned increment, under heavier tax

contribution. Another evidence of this is afforded by the recent increase in the municipal tax on real estate transfers (*Umsatzsteuer*). Formerly this amounted to  $\frac{1}{2}$  and 1 per cent of the sale value of improved and unimproved properties respectively, but since March 7, 1904, these rates have been doubled.<sup>1</sup> The idea underlying taxation of this character is present in another form in the basic law on the subject. According to § 27, clause 2 of the municipal tax law of 1893, a provision was made for a building lot tax (*Bauplatzsteuer*) which was hailed with delight at the time as promising a means of getting at the unearned increment. It read as follows: "Real estate holdings which have been increased in value by the laying out of street lines (*Baufuchtlinien*) may, according to the measure of this higher value, be assessed at a higher rate than other real estate holdings." Despite the extremely vague wording of the foregoing, an attempt was made to work out a tax ordinance along this line. Great difficulty was experienced particularly because of the limitation of the tax measure to that part of the increase of land values caused by the laying out of new street lines. In the words of Dr. Preuss:

By the fixing of new street lines in itself considered no demonstrable increase of value emerges; such action [*i. e.* the laying-out of new street lines] is but one of the symptoms of the whole development, of that general extension of municipal agglomeration, which makes the plot of land under consideration more valuable.<sup>2</sup>

When the building lot tax finally came before the superior administrative court, a decision was handed down which pointed out the original defect in the municipal tax law and excluded from the operations of the ordinance all so-called "historical streets," *i. e.* those which were constructed before the street line law (*Fluchtliniengesetz*) of 1875. As a result the city rescinded its action, paid back its collections, and the incident

<sup>1</sup> In 1903-04, this tax yielded 2,831,783 marks, or 4.1 per cent of the total tax yield of that year. In 1904-05, as a result of the doubled rate it yielded 5,884,708 marks. *Berichte aus Anlass d. Besuches d. englischen Kommission z. Zweck d. Studiums städtischer Einrichtungen im Auslande* (Berlin, Hermann, 1905) pp. 18-21.

<sup>2</sup> Ref., p. 47.

has since been invested with no small degree of melancholy fame in the city's financial history.

In spite of this failure, the idea has persisted and grown in strength with the passing years. It now has behind it considerable popularity and the overwhelming weight of expert opinion. Thus Professor Wagner, in his discussion of the present real estate transfer tax, commits himself unreservedly to the principle involved. Assuming the case of a piece of city real estate which in the course of a few years has increased in value 40,000 marks above all costs for improvements made in that time, he writes :

This 40,000 marks now, has it been earned by the activity of the owner? No! Has he paid for it? No! It is the tenants who now and in the future must make it good. That, however, is a relationship under which the tenants are exploited far more severely than was the case with the burden upon land in feudal times; it is a situation under our present legal system that from the social point of view must be regarded as dangerous. The question is: how may this 40,000 marks be drawn upon for purposes of taxation? In this case, I think, one can not go far enough with the tax rate. Even here, however, I would leave something to the winner, to the one who through circumstances is enriched—let us say 10 per cent. The city would then get 90 per cent. Now since such a proposition is not yet practically possible, let us say 50 per cent, or even, so far as I am concerned, 30 per cent.<sup>1</sup>

In concluding his speech before the Berlin branch of the Society for Social Reform, Professor Wagner most impressively declared his confident belief that the principle above enunciated would eventually be accepted. That such opinions are not confined to the closet of the student is apparent from the following words used by Mayor Kirschner in open council :

Gentlemen, it is indeed quite clear that certain values emerge and increase, even in the case of improved real estate, which are not hit by the rental tax. These values fall into the pockets of the owners with-

<sup>1</sup> Ref., p. 30. See also Professor Wagner's *Finanzielle Mitbeteiligung der Gemeinden* in which a plan for such taxation is explained in some detail. In Kiautschou according to a recent tax decree a rate of 33⅓ per cent is actually being levied against the unearned increment of land.

out their having done anything to deserve it, and in consequence would seem peculiarly adapted to the purposes of taxation.<sup>1</sup>

These ideas are now actually taking shape in the form of a *Wertzuwachssteuer*, or increment tax, which the tax committee of the administrative council (*Magistrat*) of Berlin is preparing to lay before the elective council (*Stadtverordnetenversammlung*). If accepted, the experiment should prove one of the most interesting in modern financial practice, and for that reason, in spite of its present purely tentative form, the proposed ordinance is here given in detail, omitting sections 1 and 2 which merely restate the provisions of the existing real estate transfer tax:

§ 3. Besides the tax mentioned in section 1 [*Umsatzsteuer*], an increment tax [*Wertzuwachssteuer*] shall be levied whenever the present purchase price or the market value [*gemeine Wert*] of the real estate exceeds by more than 10 per cent the price paid at the former change of hands, inclusive of the additions provided for in section 5.

In calculating these additions it does not matter whether the former change of hands took place before or after this ordinance had been put into force.

§ 4. The increment tax is chargeable at the rate of 1 per cent of the increment, if the latter be more than 10 per cent and not more than 15 per cent; 2 per cent of the increment, if the latter be more than 15 per cent and not more than 20 per cent; 3 per cent of the increment, if the latter be more than 20 per cent and not more than 25 per cent; 4 per cent of the increment, if the latter be more than 25 per cent and not more than 30 per cent; 5 per cent of the increment, if the latter be more than 30 per cent and not more than 35 per cent of the former purchase price, or the market value; and so forth, *i. e.* 1 per cent more on every additional 5 per cent of increment.

§ 5. In calculating the increment referred to in section 4, the former purchase price is to form the starting point. To that price must be added:

1. All the expenses for permanent improvements of the estate, inclusive of expenditures on street construction and for connections with the common sewer. Expenses for new buildings and alterations of

<sup>1</sup> Amtlicher stenographischer Bericht f. d. Sitzung d. Stadtverordneten-Versammlung am 13 April, 1905, no. 16, p. 226.

buildings are not taken into account so far as they have been covered by moneys received from fire, water and other insurances.

2. All the expenses for lots not built upon, and not utilized by the seller himself for his own agricultural or industrial pursuits ; also losses of interest, expenditures for repairs and costs of keeping the estate in good condition—all corresponding receipts, however, to be deducted.

Cessions of land for streets and squares are taken into account in such a way that the total purchase price shall be calculated, not according to the original area, but according to the area remaining after the cession has been made.

No further additions to the former purchase price shall be admissible. The difference between the former purchase price, increased by the above-mentioned admissible additions, and the present purchase price is to be considered as increment.<sup>1</sup>

It should be added that while the real estate transfer tax is borne by the purchaser, the new increment tax will be assessed against the seller. There is also a bare possibility that it will be made to apply to the transfer of real property by inheritance, which is not the case with the real estate transfer tax. As to what changes the council will make in the proposed ordinance, and the later attitude of the royal authorities on the question, it is of course too early to venture any predictions.

Next to the municipal land tax the business tax (*Gewerbesteuer*) yields the largest amount to the Berlin treasury—in 1903-04, 8,055,818 marks or 11.7 per cent of the total tax yield of that year. It received very little attention in the current discussions, chiefly because it is included under the *Kontingentierung* clause, and must therefore be assessed at the same rate as the land tax. This is felt to be unjust, as, unlike most city land, business undertakings in general do not constantly increase in value. Hence they should be assessed at lower rates than real estate. There are other defects too numerous to mention in the business tax, but as the present quest of the city was for new sources of revenue, reforms in

<sup>1</sup> With some changes where the original did not seem to be exactly rendered, the above translation is taken from the very interesting Report on the Municipal Administration and Industries of the City of Berlin, p. 55, prepared to aid the English commission which visited Berlin in June of the present year to study its government. Berlin, H. S. Hermann, 1905. The report is published both in English and German.

these particulars, with the losses to the treasury they would possibly entail, were left for another time.

In connection with the business tax should be mentioned the special department-store tax, (*Warenhaussteuer*)<sup>1</sup> passed in 1900, principally with the intention of affording a measure of protection to the small retail trade. It yielded, in 1903-04, 704,464 marks, or about 1 per cent of the total net tax receipts of Berlin for that year. There is no immediate intention of drawing more heavily upon this source, primarily because its yield must be placed to the account of the lower classes of the business tax, but also because it is felt that the exception made by the law against one form only of large-scale enterprise is hardly justifiable. A more correct method of procedure would be an increase of the general business-tax rates against large industries and a lightening of the rates on smaller enterprises, with possibly a higher limit of exemptions. Whatever may be the protective effect of the department-store tax in favor of the small dealer, it does not, as at present constituted, help him against large stores dealing in one line of goods only.

The list of Berlin's principal sources of income may be completed by a brief reference to the sewerage fees (*Kanalisationsgebühr*). In 1903-04, these yielded 6,178,794 marks or 8.9 per cent of the total net tax-yield of that year. From the point of view of the law of 1893, the sewerage charges are, as the name *Gebühr* indicates, nothing more than fees, similar to those charged for the use of market halls, slaughter houses and other city enterprises. Looking at them in this way it is easy to figure out a profit on the whole sewage-disposal plant including the farms. Properly speaking, however, the sewerage fees are taxes, and direct taxes at that. Like the municipal land tax they are assessed against the rental value of real property, the rate being 1½ per cent. As the municipal tax law of 1893 prohibits the increase of charges of this character beyond a point sufficient to pay operating expenses, interest and sinking-fund charges, the sewerage fees hardly came under consideration at all in the course of the present discussion. Their only

<sup>1</sup> Gesetz v. 18 Juli, 1900, p. 294. Cf. also J. A. Hill, "Taxes on Department Stores," *Quarterly Journal of Economics*, p. 299, vol. xv (1901).

interest in connection with it lay in the fact that they will continue to be assessed against rentals, whereas if the proposed land-tax reform is accepted the land-tax will be assessed against market value, thus making necessary two different assessments for the same property.

The next point on the program of the Berlin reformers was the proposition that indirect taxation should be developed to a greater extent for municipal purposes. In a sense this represents a decided reaction, for prior to the establishment of the empire Prussian cities were notorious for the number and vexatiousness of their indirect taxes. One of the purposes of the municipal tax law of 1893 in directing cities to develop land and business taxes was to make it less necessary for them to rely further upon indirect taxes. Another consideration that contributed to this determination was the fact that the empire almost entirely, and the state to a very considerable extent, were dependent upon indirect taxes. If cities should be permitted to add to these burdens on their own account it was feared that consumption would fall off, thus reducing the yield to empire and state. Consequently the municipal tax law of 1893 drew pretty narrow limits about indirect taxation. It forbade expressly the enactment of new taxes where these did not already exist, and the increase of existing taxes upon meats, grains, flour, pastry, potatoes and fuel.<sup>1</sup> An exception was made to the foregoing as regards game and poultry, but owing to the comparatively small consumption of these commodities the liberty to impose taxes upon them is practically of no importance. The chief purpose of these restrictions was, of course, to prevent an increase of the poor man's cost of living beyond what the necessities of empire and state required. On the whole praiseworthy, they nevertheless raise the question whether, with exemption from the income tax and no direct contact with land, business and other taxes, the poor man is not escaping contribution to the municipal treasury almost altogether.

So much for the restrictions on indirect municipal taxation. On the other hand the municipal tax law of 1893 expressly permits cities to impose taxes on public amusements (musical,

<sup>1</sup> § 13.



declamatory, theatrical) and on dogs. The latter is regarded as indirect, although it would be harder to find a better reason for so classifying it than the old juristic joke, namely that the dog itself does not pay the tax.

With the principle imbedded in the basic law that cities should resort to indirect taxes very sparingly, the nominal part they play in Berlin's budget should not be surprising. Without counting the tax on real estate transfers—although logically this tax is perhaps to be classified as indirect in character—the existing sources of this kind are three in number, *viz.*, the brewing malt tax (*Braumalzsteuer*, levied as an addition to the imperial tax on the same object), which yielded 726,872 marks in 1903-04; the dog tax, 624,208 marks; and the retail liquor-dealers' tax (*Betriebssteuer*), 278,461 marks—a total of 1,629,541 marks, or only 2.3 per cent of the total tax-yield of that year.

Berlin, then, is very nearly perfect if a city's tax system is to be considered as approaching the ideal the nearer its indirect taxes come to being reduced to a minimum. In spite of the law of 1893 and the unpopularity of indirect taxes in general, there is, however, a marked tendency to venture more into this field. This is due partly to necessity, partly to the conviction that the pendulum has swung too far in the other direction. Among others Professor Wagner is a moderate adherent of this opinion. In his recent pamphlet he pointed out how much less Berlin receives from indirect taxes than other continental cities. Even in Prussia other cities, especially those which have retained indirect taxes in existence at the passage of the municipal tax law, enjoy more abundant revenues from indirect taxes than Berlin. Thus Breslau, which still has a tax on killing cattle (*Schlachtsteuer*), raises from consumption taxes  $5\frac{1}{2}$  out of its  $28\frac{1}{2}$  marks a year per capita. Outside of Prussia the comparative importance of indirect taxation is greater, particularly in those parts of the empire where French influence is felt. Munich collects from indirect taxes 5 out of 26 marks per capita; Stuttgart,  $6\frac{1}{2}$  out of 32 marks; Nürnberg,  $4\frac{3}{4}$  out of 19 marks. In the Reichsland octrois still exist, and their effect may be noted in the fact that Strasburg collects 22 out of 26 marks per

capita from consumption taxes. Similarly in the municipalities of Italy, Austria and France. Paris, for instance, in spite of recent reductions in octroi duties still obtains 60 per cent of its revenues from indirect sources.<sup>1</sup>

The persistence of this kind of municipal taxation naturally raises the question as to whether its effects are so bad as they have been described. This can perhaps best be taken up in discussing the various indirect tax schemes recently brought before the Berlin council. Meanwhile it should be noted that opinions hitherto pretty generally held with regard to the incidence of such taxes are undergoing considerable revision. They are not by any means always shifted entirely upon the consumer in the shape of higher prices or poorer qualities. Professor Schanz, of Würzburg, recently investigated this point with reference to the Bavarian beer tax, which was increased 50 per cent a few years ago. He found that the results were most various: in one case the price was somewhat increased; in another, quality fell off; in a third the effect was not noticeable at all or was distributed among the various middlemen—brewers, wholesalers, tavern-keepers, *etc.* These theoretical considerations regarding incidence played no small part in the Berlin debate, not a few of the speakers basing their arguments upon a hoped-for shifting of the burden of indirect taxes upon others than consumers, or, at least, upon others than citizens of Berlin.

In spite of the supposedly bibulous tendencies of Berliners, there was pretty strong support in some quarters for the proposition that liquors and the retail liquor business afforded the most eligible objects for increasing the indirect tax revenues of the city. The two taxes of this sort now in existence (*Braumalzsteuer*, *Betriebssteuer*) yielded together, in 1903-04, only 1,005,333 marks or about half a mark per capita—a laughably small figure. One surprising fact with regard to the brewing malt tax is that it falls entirely upon the Berlin brewers, while beer from other places is subjected to no corresponding burden. To remedy this it was at first supposed that a tax per liter on all beer consumed in the city would be

<sup>1</sup> Ref. pp. 16-18.

sufficient. By law, however, such a tax could not exceed 65 piennige per hektoliter, and its yield would, therefore, probably be less than that of the present malt tax. As the latter would have to be abandoned in case the 65 pfennige tax were imposed, the disadvantage of the Berlin brewers could be remedied only at the cost of the city treasury. The project was therefore abandoned.

The retail liquor-dealers' tax (*Betriebssteuer*)<sup>1</sup> is now assessed upon four classes of dealers divided according to the profit of the business. In 1903-04 there were altogether 16,213 such dealers in Berlin, each paying, according to class, 100, 50, 25 or 15 marks. These rates are regarded as quite inadequate, particularly in the case of the so-called "beer palaces," and other large and fashionable drinking places. Accordingly the elective council has requested the administrative council to draw up a new retail liquor-dealers' tax ordinance, the rates in which shall be based upon a combination of the quantity and quality of the liquors dealt in (wines, foreign and domestic beers, brandy), the rental value of the places where these are sold and other similar factors. Technically this is a commission by the side of which the labors of Hercules were mere child's play. A preliminary draft of the new ordinance, as yet presented only in committee, proposes such readjustment of the rates that the yield of the tax shall be increased from the present figure of 278,461 to 1,392,526 marks. At present the first class or large retail liquor-dealers pay slightly more than one-tenth of the whole tax. Under the proposed tariff they would have to pay about a third. It is hoped that the increased burden will not be borne entirely by the consumer but will be shifted in part upon the owners of property rented to tavern and restaurant keepers. The real tug of war will come when the proposed ordinance reaches the council, for "mine host" is popular in Berlin, he possesses an influential organization of his own, and he counts for more than a little in all the local political parties.

From its dog tax Berlin received, in 1903-04, 624,208 marks.

<sup>1</sup> *Betriebssteuer* v. 24 Juni, 1891, p. 221.

Dogs used as draft animals or belonging to crippled or blind persons are exempt; on all others the rate is 20 marks per annum. A resolution to advance this to 40 marks was opposed in committee on the ground that it would probably yield no more than the present tax and be a cause of great vexation both to those who paid and to those who felt compelled to dispose of their dogs. To this it was replied that the city had increased the rate from 9 to 20 marks in 1892, and that while the immediate result was a considerable decrease in the number of dogs kept in the city, they began to increase shortly thereafter, were now more numerous than ever and were increasing at the rate of a thousand a year. Stettin already taxed them 50 marks a year, and many cities charged more than 20 marks. Dogs in cities were often a menace and always a nuisance. While admitting the force of this statement, the opponents of an increased tax maintained that the proper action under the circumstances would be to banish all dogs from the city or order them to be kept in close confinement. The proposition to make the tax 40 marks being defeated, an increase to only 30 marks was next voted down, although it was calculated that at the latter figure an additional 300,000 marks annually could be secured. Thus was vindicated the principle "love me, love my dog," for it was pretty generally understood that no tax increase of equal amount would cause more bitter feeling than precisely this one.

The battle royal of indirect taxation was fought out, however, on the proposition to introduce a theatre-ticket tax. There was no doubt of the city's legal right to do this under the amusement clause of the municipal tax law of 1893. Indeed, there seems to have been some intention at first of a general tax on amusements, balls, concerts, lectures, *etc.*, as well as on theatrical representations. Such general amusement taxes exist in many cities, some of which, as, for instance, Frankfurt on the Main, seem satisfied with them. In Halle and other places, however, they were found very vexatious, many pleasure clubs transferring their meeting to inns just outside the city, to the despair of local landlords and the final abolition of the tax. As country parties and merrymakings are popular with Berliners even

without a tax, the proposition to bring amusements in general under contribution was dealt with very gingerly.

Not so the plan to tax theatre tickets. Other cities with no mean reputations as art centers have developed this source of revenue—among them Paris, which collects about 10 per cent of the value of the tickets sold, Frankfurt on the Main, which takes 8 per cent and realizes 115,000 marks a year, and Vienna. The price of seats in Berlin is very low in comparison with other places of its size, and a small increase, particularly for the higher-priced tickets, would be very little felt. By the withdrawal of a special rental tax (*Mietssteuer*), in 1895, theatres had been given what was practically a present, amounting in some cases to 100,000 marks a year. They could hardly regard it as a hardship, therefore, to meet the much lighter burden which it was now proposed to levy upon their ticket sales. Finally, it was urged that a tax of this sort would fall in part at least upon visitors who enjoy all the advantages of the metropolis without contributing anything to the cost of its government. In 1903, as near as could be ascertained, 882,202 strangers visited Berlin.

Great uncertainty as to rates and probable yield marked this part of the discussion. The most definite proposition made, although it must be regarded as purely tentative, was based upon the rates now employed in Elberfeld. It was as follows, the figures showing the number of seats and yield being assumed to cover Berlin conditions.

Cost of Seat (marks)	Number of Seats	Rate (marks)	Yield on the assumption that half the places would be sold 200 days in the year (marks)
7-10.00	345	1.00	34,500
5- 6.50	3,597	0.75	269,700
4- 4.50	3,045	0.50	152,200
3- 3.50	4,649	0.30	139,440
2- 2.50	4,228	0.25	105,700
1- 1.50	8,890	0.10	88,900
Total	24,574		790,440

The above rates vary from  $6\frac{2}{3}$  per cent upon the cheaper to 15 per cent upon the more costly tickets, although the rate of progression is not quite uniform. With regard to the total yield, the assumption of a sale of half the seats only 200 days in the year was thought to be much too moderate, especially considering matinees and Sunday performances. The estimate of the total number of seats in the city was also thought to be too low. Optimists with regard to the tax thought it might produce between two and three million marks annually; skeptics granted only half as much, and pessimists on down to less than the figure quoted in the above table. Whatever it may turn out to be, two allowances, one certain, the other highly probable, must be made. At the present time the theatres of Berlin pay the city from 150,000 to 200,000 marks every year for special police and fire protection. If the proposed tax be adopted these special contributions, according to section 6 of the municipal tax law of 1893, must cease. The other deduction will probably have to be made for the royal opera house and the royal theatre with 1116 and 1385 seats respectively. Any city ordinance imposing a tax on theatre tickets must receive approval of the royal supervisory authorities before going into effect. That they will permit Berlin to tax an enterprise administered by the state is hardly probable. Indeed they might take the directly opposite view, recently advanced by Professor Wagner, namely, that municipalities, instead of imposing taxes on state institutions of such recognized high merit, should be compelled to contribute roundly to their support. Consequently Berlin's officials have to face the dilemma of exempting the royal playhouses and losing two of the richest sources of the new tax, or of attempting to reach them at the risk of having their tax ordinances disallowed in whole or in part. Summing up both the deductions mentioned above, a total yield from the theatre-ticket tax of a clear million marks a year is perhaps as much as can reasonably be expected.

A very lively opposition to the proposed tax was made in the press and on the floor of the council. That visitors would pay any large part of it was doubted. Most of those who came to Berlin came for business rather than pleasure. Far

worse than any actual burden which might be imposed upon visitors was the bad name it would give the city to have it noised about that schemes for taxing the stranger within her gates were being contemplated. Berlin was none too popular anyway, and other cities were competing actively for her trade. As regards the citizens of Berlin, who would assuredly pay the greater part of the tax, how could any action be justified that would make their intellectual food more costly? One orator even went so far as to compare a tax on theatre tickets to a tax on newspapers. The poor man in particular, who is able to take his family but rarely to the theatre, would find the increase in the price of tickets prohibitive.

The attitude of Paul Singer, who spoke for the Social-Democrats, was rather interesting. It is a part of the program of his party to denounce all indirect taxation as the insidious scheme of tyranny to extract money from the pockets of the people without their knowledge. Consequently he found himself in opposition not only to the theatre-ticket tax but also to the increase of the liquor and dog taxes. All of these, and particularly the first, were advocated as taxes on luxury, but this did not prevent the votes of the Social Democrats being thrown against them. In spite of this rather equivocal situation, some of Singer's arguments were of considerable force. The introduction of indirect taxes, he maintained, was the first step on the downward path, and the more the city developed these sources the weaker would be its motives and the worse its position for fighting the fundamental evil of Prussian municipal finance—the *Kontingentierung* clauses. All efforts should be concentrated to this single end in order that direct taxes—and particularly the income tax, in the opinion of the Social-Democrats—might be more adequately developed.

Nevertheless the theatre-ticket tax principle was upheld by a vote of 58 to 38 in the council, and the *Magistrat* was asked to work out a definite ordinance on the subject. As for the danger of too great a development of indirect taxes, existing imperial and Prussian laws, taken in connection with popular feeling on the subject, would seem to impose sufficient safeguards. Considering the need for more revenue the council must be con-

ceded to have been very cautious in its action. A number of suggestions for new indirect taxes which received the support of no less an authority than Professor Wagner were not even brought up officially. To this category belong the propositions for a general increase in the fees charged for the use of municipal libraries, museums, galleries and other collections; and a special tax to be imposed on the owners of horses, wagons, automobiles, *etc.*, based on their specific advantage in the use of the streets.

Reviewing the action accomplished, it will be found that the purely financial results of the Berlin tax discussion are not large. From municipal ownership or control, and from its so called *real* taxes of land and business, the city can expect only the increase due to slow growth; from the income tax, probably not even that increase. It is too early to speak of the increment tax on real estate; the increase of the real estate transfer tax may yield an additional two million marks; the retail liquor-dealers may be mulcted to the extent of another million, and the theatre-ticket tax may produce still another. In a budget so great as Berlin's, the total of these figures will not bulk very large. Everything comes back, therefore, to the revision of the fundamental Prussian law on the subject, particularly with regard to the *Kontingentierung* principle. While the financial administrator will thus find the results recently obtained in Berlin of little importance, the financial theorist must consider some of them very significant. The bringing to light of the cardinal defects of the law of 1893, the change from rental to capital value assessment of real property, the theatre-ticket tax and above all the effort to get at the unearned increment, are worthy of the most careful attention.

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